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First National City Bank Monthly Letter

Business and Economic Conditions

New York, September, 1958

General Business Conditions

THE summer now closing has been a heartening period for business. Extended vacation shutdowns in industry had been widely expected, and the improvement in May and June had not wholly relieved fears that the trend would turn downward again and the recession deepen. Despite these doubts, July and August have brought signs of continuing vigor. Industrial production as a whole has advanced further. Recovery in steel operations has shown that the late spring rise was something more than anticipation of price advances. Home building has moved ahead. The work week in manufacturing has lengthened steadily. Personal income, which has been a strong sustaining force in the recovery, has advanced to a new record high. Gross national product – the most comprehensive of business measures and thus one of the most sluggish – moved up to an annual rate of $429 billion in the second quarter, erasing about one sixth of its decline.

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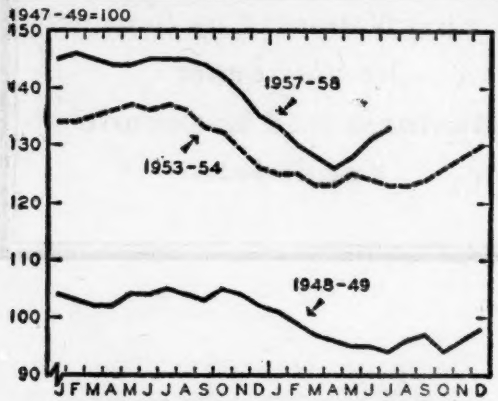
This performance leaves little doubt that the bottom of the recession was reached in April. The problem now is how far and how fast will the recovery go. The turnaround has been so abrupt that questions arise as to how long the fast rate of climb can be maintained in the months ahead. In just three months – May, June, and July – industrial production (seasonally adjusted) rose 6 per cent, recovering over one third of the preceding drop. Some further advance may have been registered in August, although sharp seasonal fluctuations during the summer months obscure the extent of the improvement. The possibility of a strike in the automobile industry in itself poses a threat to a sustained advance. In 1949 a budding upswing was slowed by strikes in the bituminous coal and steel industries, and recovery was delayed for at least three or four months.

The upturn in production is noteworthy, not only for the sharpness of the initial rebound, but also for its breadth. Every major industry covered by the seasonally adjusted Federal Reserve index has increased output from its low point last spring. The unanimity of this rise is in contrast to the "rolling readjustments" characteristic of recent years, in which the swings of the business cycle were moderated by advances in some industries offsetting downward adjustments in others.

The contrast between the behavior of industrial output in this and the two previous postwar recessions has been apparent in both the decline and recovery; neither 1949 nor 1954 had a V-shaped trough like the one currently developing. In both previous recessions, the decline tended to slow down before bottom was reached and the recovery was at first more gradual. These differences are shown in the following chart.

Sources of the Recovery

Retail and wholesale sales have been picking up gradually since March, and, more recently, inventories have stabilized at the wholesale level



Industrial Production in Three Postwar Recessions
(Seasonally adjusted indexes; 1947-49 = 100)

and risen slightly among retailers other than auto dealers. Government expenditures have continued to rise, and advance ordering of defense goods has been stepped up. The number of new private homes started in July reached a seasonally adjusted annual rate of 1,160,000, the highest since January 1956.

Firm and increasing demand from all these sources has more than offset continued declines in business outlays for construction and equipment and lagging sales of autos and appliances. The net result has been an accelerating increase in shipments of manufactured goods beginning in April, reflecting a rise in new orders which started in March. Since the rate of run-off of manufacturers' stocks held fairly steady during the second quarter, the expansion in orders and shipments has been almost entirely reflected in accelerated production.

Increases in new orders received by manufacturers have been fairly widespread in recent months, but the most significant gain – accounting for over half the total increase between the first and second quarters – has been in the primary metals group, notably steel and aluminum. Anticipatory buying to beat the steel price rise pushed weekly output of steel up to 65 per cent of capacity in the two months following its April low of 47 per cent. As usual, production dropped in early July when many consuming plants were closed for vacation, but a steady recovery brought operations back to 63.6 per cent in the last week of August.

This second rise, based on business needs rather than price speculation, has encouraged industry officials. They now report orders for September delivery sufficient to carry production as high as 70 per cent of capacity, with further gains forecast for the fourth quarter. For the most part, the improvement in steel mill activity represents the end of more than a year of customer inventory liquidation and a return to producing more nearly in line with the current rate of steel consumption.

Other industries are sharing this confident but cautious approach to recovery. Purchasing agents report continued tight control of purchased goods inventories and forward commitments. The automobile industry plans conservative production schedules for 1959 models until it sees how buyers react to the new cars.

Broader Recovery Needed

Too much of the force boosting factory orders and shipments traces back to easy money and increased Government spending. Home building has been helped in its comeback both by easy money and by liberalized mortgage insurance terms and heavy commitments for mortgage purchases by the Federal National Mortgage Association. Government purchases of goods and services, whether for defense, public works, or general administration, continue to mount.

Consumer spending has been bolstered by higher personal incomes, which in turn have been sustained by a rising level of unemployment compensation and other social insurance benefits. In addition to such "automatic stabilizers," there was a rise of about $7½ billion in the annual rate of federal government payrolls between late 1957 and July 1958. Nearly $1½ billion of this rise represented recent pay increases for civil service workers, postal employes, and members of the armed forces; another $4½ billion of the increase was due to the temporary influence in July of payment of retroactive salary increases.

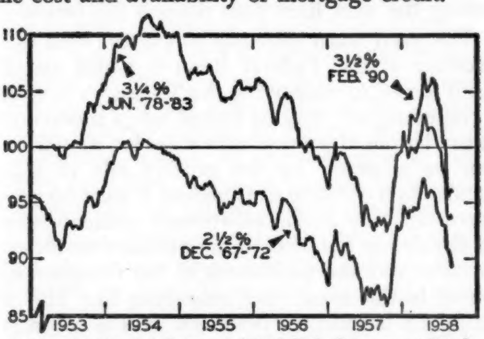
On the assumption that unbridled government spending cannot be allowed to go unchecked, the economy faces the need for supplementing this stimulant with forces more compatible with self-sustaining growth. The continuation or acceleration of recovery beyond its early stages will hinge on renewed consumer interest in durable goods – including acceptance of new model cars – and on a tapering off, and eventual reversal, of the decline in private investment in plant and equipment.

Industry, and construction contractors, naturally have been pleased to get government business. Certainly the upswing in general activity and employment opportunities – incomplete though it has been – is welcome for everyone. But business sentiment is disquieted by knowledge that there will be a penalty for Government extravagance – in difficulties of borrowing in competition with the Government; in threats of higher taxes, price controls, and inflation.

The Price of Fiscal Improvidence

The recovering business curve, while alerting banks to the probability of increased demands for short-term credit in the months ahead, has brought little actual increase in such demands. But unexpectedly heavy demands upon the capital market have developed from home builders and from industry. These could easily have been met out of the stiffened flow of savings that followed last year's increases in rates offered by savings institutions, to say nothing of excess loan funds supplied by the Federal Reserve authorities as a support to business recovery.

In view of these circumstances it may seem surprising that U.S. bonds extended their rapid declines into August, raising offered yields on issues due beyond 5 years from a range of 2⅜ to 3¼ per cent in mid-June to 3½ to 3¾ per cent in mid-August. Yields on governments thus are within striking distance of the 3⅞ to 4 per cent range prevailing last fall. Yields on new issues of corporate bonds (adjusted to Aaa-rating basis) rose from an average of 3.61 per cent in June to 4.39 per cent. Yields on representative high-grade municipal obligations moved up from 2.92 per cent in mid-June to 3.52 per cent. As August wore on, improved bond yields began to affect the cost and availability of mortgage credit.



**Friday Closing Bid Prices, Selected U.S. Government Bonds
Last Plotting Wednesday, August 27**

The initial reason for the decline in bond prices was the fact that, under speculative influences, yields had been driven down out of contact with investment interest. Institutions paying 3 per cent and more to savers cannot make ends meet on U.S. bonds yielding 2⅜ to 3¼ per cent. They sought and found other more attractive outlets for funds. Money was diverted increasingly into mortgages and corporate bonds and stocks.

Credit Policy Reversal

To be sure, the bond speculator had another string to his bow: the idea that the Federal Reserve would feed out more money to accommodate cheap financing of the swollen federal deficit. This expectation was doomed for disappointment. As the weeks wore on the authorities seemed more concerned with taking away excess funds than creating more.

A major problem was crystallized: how was the Treasury to raise the $7 or 8 billion it will need to borrow in the next four months towards covering its $10 or 12 billion deficit? This is more than the existing savings supply can handle.

Hope of a renewed cheap money policy was briefly revived in the third week of July when the Federal Reserve System departed from its five-year-old policy of avoiding direct support of Treasury new security issues and bought $1.2 billion new 1⅝ per cent one-year certificates to rescue the Treasury's August 1 refunding from failure.

On the assumption that these purchases would ease their reserve positions, banks subscribed to $3½ billion 1½ per cent Treasury tax anticipation certificates dated August 6 and due March 24, 1959. But the Federal Reserve, selling out $1¼ billion of its Treasury bill holdings, mopped up surplus funds so rapidly that the new March 1½s quickly dropped ½ point below par and the August 1⅝s slid off ⅞ point under par. Treasury bill yields — in the most precipitous rise since the bank holiday in 1933 — went from ⅞ per cent on July 31 to 2¼ per cent toward the close of August.

Adjusting to the rise in open market money rates, some Federal Reserve Banks, beginning with San Francisco effective August 15, moved discount rates up from 1¾ to 2 per cent.

Fears in the Market

A quarter-point rise in discount rate is a modest increase and 2 per cent is a low rate. But the market toward the close of August seemed gripped by fears that the overweight of credit demands created by the federal deficit would force market rates — and discount rates too — higher and higher for an indefinite period to come. Thoughts reverted to 1955-56 when a succession of six quarter-point increases in 16 months carried the discount rate from 1½ to 3 per cent.

The practical import of the market price declines in U.S. securities has been that anyone who since June has bought a new marketable Treasury certificate, note, or bond is involved in a loss. The same is true even of new Treasury bill issues acquired since mid-July. The buyer would have been better off keeping his money idle in the bank. Price depreciation has more than offset accrual of interest. Under such conditions of market deterioration the placement of billions

of new government securities becomes a complex task.

The difficulties would be eased if the recovery in business should falter in the months ahead, leading to a renewed slump in private credit demands and providing justification for an easier Federal Reserve policy. Barring this undesirable possibility, the only option available for financing through the market is for the Treasury to offer rates consistent with Federal Reserve intentions to tighten the market. It will cost an increase in rates offered to overcome the strong reluctance of buyers. But this is better than offering securities that only the Federal Reserve Banks will be willing and able to buy. The independence of the Federal Reserve cannot survive if the Treasury cannot finance successfully in the open market. The road will be opened to uncontrolled inflation.

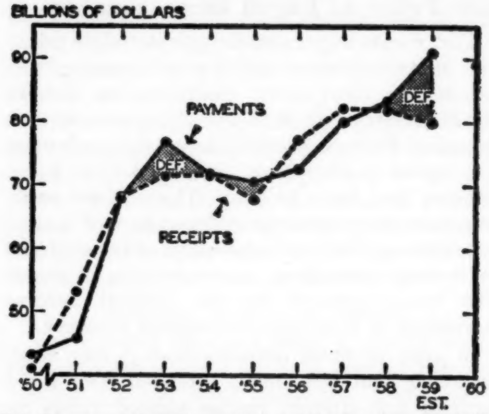
Penalties of Overspending

The decline in bonds represents an effort on the part of the market to find levels at which broad new strata of investment demand can absorb the securities that will have to be floated to finance the record peacetime deficit.

It is a pity that the Congress, before embarking on the path of radically increased federal spending to revive the economy, did not give more favorable attention to the alternative of tax reforms as a stimulant. Tax reforms could have invigorated the savings stream as well as individual initiative and tax compliance. There would not have been the same difficulty financing the deficit. Lowered tax burdens also could have relieved upward cost pressures on business and aided stabilization of consumer prices.

The choice of increased federal spending is not only bound to be inflationary; it displaces individual self-reliance and reduces the resources the citizen has at his own command and disposition. Government expenditures, once raised to new peacetime peaks, never retrace their steps. The vested interests which each new program develops stand guard to prevent it.

The Bureau of the Budget is engaged in reappraising spending and revenue figures in light of the actions taken by the Congress. Meanwhile, the best guess still is that budget expenditures this fiscal year will reach $79 billion — a peak surpassed only in three years of World War II — with revenues of $67 billion and a deficit around $12 billion. The cash accounting basis, including receipts and disbursements from trust funds, gives a truer measure of the financing problem; the deficit still runs to $10 billion or beyond.



U.S. Government Cash Payments to and Receipts from the Public Fiscal Years Ended June 30, 1950-59

How Raise the Money?

The plan to stimulate the economy with more federal spending omitted consideration of where the money was coming from. This is a practical problem. If the money cannot be raised it cannot be spent.

The Congress, lifting the debt limit to $288 billion through June 30, 1959, has passed the buck to the Treasury, within a statutory interest rate limit of 4¼ per cent on bond issues. But raising the debt limit does not sell the bonds.

The party most seriously concerned with this problem is the Federal Reserve which found itself forced to underwrite the Treasury's August 1 refunding and may be forced into a succession of similar misadventures unless market conditions can be achieved for the orderly sale of U.S. bonds. As a creature of Congress it must be sensitive not only to the inflationary consequences of the deficit but also to the needs of resolving in some way the aspirations of the Congress to spend in this fiscal year something like $10 or 12 billion beyond the revenues. This is not, it is true, a new dilemma for the Federal Reserve, but this time it has been thrust upon it under especially difficult circumstances.

There seemed to be some dawning recognition in the closing days of the recent Congressional session that appropriations had been too reckless and that new revenues might have to be sought in the next fiscal year. The option of tax increases, while adding to pressures for higher prices and wages and damaging business recovery, could help reduce the deficit.

A Challenging Problem

There are some who doubt that the Treasury can sell bonds at any price. "People just do not want fixed interest investments," it is said. But this conflicts with the experience of savings

institutions that have been enjoying record growth in resources by offers of rates of 3 to 4 per cent. It overlooks the fact that more and more tax exempt bonds are being placed every year by States and municipalities. It ignores the fact that many conservative investors consider stock prices unattractively high and could be induced to buy U.S. bonds at rates that provide some protection against inflation.

Nevertheless, the Treasury will have all its talents tested to invent securities that people will buy. It does not want to pay too much for money; it does not want to give income tax exemptions on government bond interest; and it certainly does not wish to offer either lottery bonds or bonds with dollar escalator clauses such as those adopted in wage contracts. But something salable must be found.

The Treasury and Federal Reserve must recognize that exclusive emphasis on short-term financing, adding to the volume of cash equivalents in the economy, will tend to feed inflation and to make long-term bond sales even more difficult. On the other hand, the successful placement of long-term securities could put at rest the disquieting thought that "no one wants government bonds."

The spending spree of the 85th Congress is going to prove expensive. It will involve higher interest charges as well as increased difficulties in selling government securities. It threatens still higher taxes and imperils the ability of the Federal Reserve System to protect the dollar from further erosion. It certainly sets a bad example for nations abroad whom we have been trying to teach the virtues of fiscal prudence.

It will take great wisdom in the 86th Congress, and a strong lead from the President, to find the means to retrenchment and the road back to stable prosperity.

The "International Liquidity" Question Today

The remarkable expansion in world trade during the last decade has aroused concern over the adequacy of monetary reserves to sustain further growth. Marking up the $35 per ounce official price of gold — in other words devaluing the U.S. dollar, along with other currencies — has been rejected by the U.S. Government as a way to increase international liquidity. But the idea of enlarging the resources of the International Monetary Fund is receiving close attention and study. On August 26, President Eisenhower requested Secretary of the Treasury Anderson, in the latter's capacity as U.S. Governor of the International Monetary Fund, to "propose, at the annual meeting of the Fund at New Delhi in October, that prompt consideration be given to the advisability of a general increase in the quotas assigned to the member governments."

While most countries are short of money to buy abroad all that they might like, the strongest advocacy of increasing international money supplies has come from the United Kingdom. The Chancellor of the Exchequer, Mr. Heathcoat Amory, disclosed last April that the British Government had been discussing with the U.S. Government "long-term financial liquidity and other problems." Presumably having in mind enlargement of the Fund's resources, he stated that "the time is now approaching, if it has not already arrived, for another forward move in international economic cooperation."

While the view that there is a serious general shortage of monetary reserves has not been accepted in the United States, the Government is concerned with payment difficulties particularly of the less-developed countries which — as the President noted — suffer "great variability in foreign exchange receipts." As a matter of fact, the Government has been making generous credits available — through the Export-Import Bank and other channels — to primary producing countries whose balance of payments difficulties have been accentuated because of the fall in world prices of such commodities as coffee and copper.

Along with the enlargement in the Fund's resources, the President suggests giving consideration to an increase in the authorized capital of the International Bank for Reconstruction and Development and to the establishment of an International Development Association, affiliated with the International Bank to supplement its existing lending activities.

General Shortage of Monetary Reserves?

The argument that there is a lack of "international liquidity" rests mainly on the idea that the growth of monetary reserves has lagged behind the expansion of world trade. It is pointed out that, since 1937, the flow of world trade (in money terms) has nearly quadrupled while world monetary gold stocks have risen by not much more than one half.

This easy conclusion becomes suspect, however, when one considers the peculiarities of the base year 1937. International trade at that time was still sorely depressed while the United States gold price a few years earlier had been raised by 69 per cent, from $20.67 to $35 an ounce. The situation was one of excess liquidity. If the comparison is made with an earlier prosperous year such as 1928, the result is quite different. As may

be seen from the accompanying table, the value of world trade has increased three and a half times since 1928 while world monetary gold stocks have risen almost four times.

Reserves and the Growth of World Trade*
(Dollar Figures in Billions)

	1928	1937	1957
Official Gold Reserves			
United States	$ 3.7	$12.8	$22.9
Foreign countries	6.0	12.3	14.9
International Monetary Fund	—	—	1.2
Total	9.7	25.1	39.0
Official and Private Dollar Holdings			
Foreign countries	2.5†	1.7	14.8
International institutions	—	—	1.5
Total	2.5	1.7	16.3
Gold and Dollar Holdings of Foreign Countries	8.5	14.0	29.7
Sterling Balances Outside the U.K.	2.4	4.0	9.1
Total Monetary Reserves of Foreign Countries	10.9	18.0	38.8
Value of World Imports			
United States	4.4	3.6	14.3
Foreign countries	26.2	23.7	93.0
Total	30.6	27.3	107.3
Percentages of Reserves to Imports			
Total official gold reserves in terms of total world imports	32%	92%	36%
Gold and dollar holdings of foreign countries in terms of their imports	32%	59%	32%
Total monetary reserves of foreign countries in terms of their imports	42%	76%	42%

* Excluding the U.S.S.R. and the eastern European countries as well as mainland China. † May 1929. Sources: Gold and dollars — Federal Reserve System; sterling — 1928: Committee on Finance and Industry, Report (1931); 1937 and 1957: United Kingdom Balance of Payments White Papers; world imports — 1928: International Monetary Fund, Staff Papers (October 1953); 1937 and 1957: International Financial Statistics.

There is another way to evaluate the record since 1937. World trade in physical terms, as estimated by United Nations' statisticians, has risen by less than 80 per cent since 1937. The near quadrupling of world trade is therefore the outcome of a much larger increase in prices than in the volume of trade. This has happened on the basis of the overswollen monetary reserves created by the radical mark-up in the price of gold in 1934. The thought emerges that a big rise in the price of gold today would have the practical result of giving inflation another 25 years' lease on life.

Key Currency Holdings

If the governments raise gold prices, they feel richer and able to spend more. There are, however, no static relationships in the world between gold and trade. Many central banks are holding sizable amounts of gold, but gold is actively used in adjusting residual positions in international settlements principally by the United States, the United Kingdom, and the Continental Western European countries. In most other countries, international trade and financial settlements are commonly made in dollars or pounds sterling. Holdings of these key currencies then serve as substitutes for and economizers of gold. While international reserves for the United States are measured by its gold stock, other countries — including the United Kingdom—commonly count dollars with their gold. Members of the sterling area have continuously used sterling as reserves; others are finding sterling balances increasingly useful now that British exchange controls have been so far relaxed.

International reserves so defined — gold, and dollars and sterling held by countries other than the United States and United Kingdom, respectively — are now much larger than in 1928 or 1937, as is brought out by the table. If compared with foreign trade, as is done at the bottom of the table, they appear as adequate today as in 1928. Thus, total monetary reserves of foreign countries equaled last year 42 per cent of the value of their imports — the same percentage as in 1928.

Venturing further back to 1913, a year that marked the culmination of a remarkable expansion in output and trade under the traditional gold standard, we find that official gold stocks and foreign exchange reserves equaled only 21 per cent of the value of imports.

Gold and Dollars

The very fact that the pound sterling has become, for foreign holders, increasingly convertible into the dollar is, in itself, a large contribution to international liquidity. Surviving the 1957 crisis without further devaluation or relapse into more severe controls over trade and payments, the British have been able to rebuild their gold and dollar reserves from a low of $1.8 billion in September 1957 to $3.1 billion at the end of July 1958. Even after allowing for Britain's drawing on the Export-Import Bank credit and its postponement of payments on the United States and Canadian postwar loans, the rise in Britain's reserves is noteworthy. It is true that Britain owes about $1 billion to the International Monetary Fund and the Export-Import Bank repayable within a few years. On the other hand, the British Government and people possess $4.5 billion worth of United States and Canadian securities, not to mention their direct investments throughout the world.

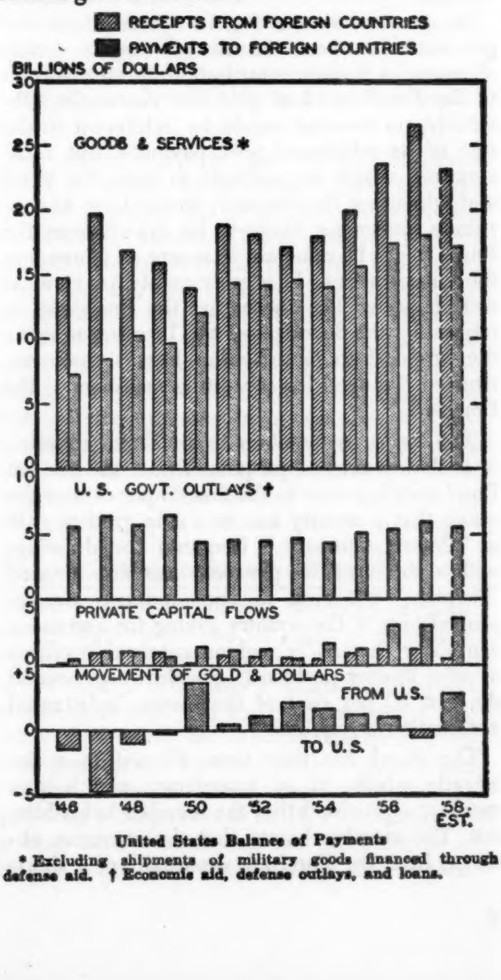
Reestablishing a convertible pound, as an essential aid to world commerce, has been a steadfast objective of United States international economic policy ever since the $3¾ billion fifty year 2 per cent loan granted the United Kingdom in 1946.

More generally, and apart from sterling, the broad policy of the United States — through foreign aid and loans, private capital outflow, and lowered import tariffs — has resulted in greatly enlarging supplies of dollars available for inter-

national payments. This is borne out by the accompanying chart.

The top grid shows our receipts from, and payments to, the rest of the world on account of goods and services. On this account, foreign countries have been in deficit to the United States throughout the entire postwar period. With the exception of the early postwar years and 1957, however, the deficits due to the excess of foreign purchases in the United States have been made good by other payments made by this country to the rest of the world.

Of these other payments, the most important are U.S. Government outlays on economic aid and defense abroad and its lending to foreign countries (shown in the second grid of the chart) and the outflow of private capital from the United States (third grid). From 1950 to 1956, and again in 1958, these payments by the United States have greatly exceeded the current-account deficits of foreign countries. As a result, foreign countries have added large amounts of gold and dollars to their reserves, as is brought out by the bottom grid of the chart.

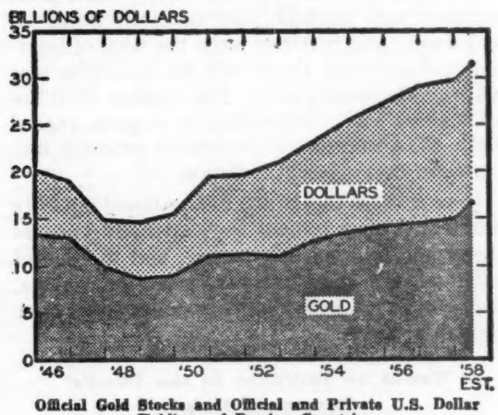


United States Balance of Payments

* Excluding shipments of military goods financed through defense aid. † Economic aid, defense outlays, and loans.

The economic and financial transactions with the United States have been throughout the postwar years the most important factor in the growth of foreign gold and dollar reserves. New gold output, receipts of gold from Russia, and — as recently in the case of France — internal gold dishoarding have further contributed to available reserves. Altogether, foreign reserves increased by $16 billion from the end of 1948 through June 1958, when they stood at some $31.5 billion — as shown in the next chart. Besides this, the International Monetary Fund has holdings of $2.1 billion in gold and U.S. dollars. Foreigners also hold billions in portfolio investments here, and have, furthermore, large direct investments capable of being translated into dollars if needed. Although many countries, like most American citizens, are suffering from "dollar shortage," the fact is that aggregate monetary gold reserves and dollar holdings are bigger than ever.

Dollars are held by foreign countries as international means of payment and monetary reserves because of the strength of the United States dollar. This strength comes not only from this country's large gold stocks but above all from its real resources and its high productivity. This, however, ought not to give rise to any complacency. In particular, we must prevent a creeping inflation from undermining the confidence that holders of dollars — Americans as well as foreigners — have in the dollar.



Official Gold Stocks and Official and Private U.S. Dollar Holdings of Foreign Countries.

A False Alarm

What aroused concern over the adequacy of "international liquidity" earlier in the year was the business recession in the United States. The fear was that the United States would cut imports, increase exports, reduce foreign lending, and drain away foreign gold and dollar reserves. In fact, the United Nations Economic Commission for Europe reported at the end of

June that a general liquidity crisis was touched off by the recession in the United States.

This turned out to be a false alarm. The actual development has been the other way around. American exports have fallen noticeably from last year's record levels, but our imports have held up remarkably well. Private capital outflow has become increasingly important, having reached during the first half of this year a postwar record level, mainly because of large foreign capital issues in the New York market. There has been no material change in the aggregate of economic aid and other outlays by the United States Government abroad. Foreign countries as a whole have thus kept on acquiring gold and dollars through commercial and financial transactions with the United States, at the annual rate of \$2½-\$3 billion, on the basis of preliminary estimates.

There is no evidence that the American recession has made it necessary for any of the other industrial countries to slow down their output on the ground that they could not pay for imports required to sustain their domestic economies. The primary producing countries, it is true, have been affected by the decline in many basic commodity prices; but the fall in these had begun in late 1956 and could hardly have been attributed to a recession in America that did not develop until the latter part of 1957.

In any case, reserves exist to be used. Like anyone's cash account, they naturally move up and down. And however large the total of international reserves, there will be countries that will run chronically short. The reasons for it are all well known: overspending on imports, capital flight, the absorption of exportable products into domestic uses — briefly inflation.

Here is the kernel of the international liquidity problem. Unless nations give up indulgence of cheap and depreciating money, and the use of inflation as a substitute for taxing and saving, they will never, individually or collectively, have enough reserves.

Would an Increase in the Fund's Resources Help?

A nation must meet a deficit in its balance of payments in the first place out of its own monetary reserves; but if it has insufficient reserves of its own, it will seek assistance from various sources abroad, including the International Monetary Fund. Each Fund member has a quota equal to the capital subscription it has made to the extent of 25 per cent in gold and 75 per cent in its own currency (though the gold portion may be reduced under certain circumstances). From this pool of resources, a member may obtain other currencies in exchange for its own; in form the transactions are purchases and sales of currencies, but in substance they are international loans. The United States dollar is, of course, the currency most in demand; the only other currencies that have been drawn out — and in very modest amounts indeed — are pounds sterling, German marks, Canadian dollars, Belgian francs, and Dutch guilders.

As already noted, the Fund still holds about \$2.1 billion of gold and U.S. dollars; and even if allowance is made for the contingent liability represented by unused stand-by arrangements, the Fund has an uncommitted gold and U.S. dollar balance of \$1.2 billion. It also has large holdings of other currencies — Canadian dollars and certain major European currencies in particular; as these currencies have become increasingly convertible, the resources upon which the Fund members may wish to draw have, in effect, been increased even though the book value of the Fund assets has remained unchanged.

An increase in the Fund's subscriptions — 50 per cent has been mentioned — would entail, of course, a further contribution by all members to the Fund's pool of gold and currencies. Obviously, no member would be indifferent to the size of its additional gold payment, but those countries which are unlikely to need the Fund and which, on the contrary, would have to contribute currencies likely to be drawn from the Fund, might be reluctant to accept an increase in the subscriptions. It is presumably in view of considerations like these that the President, in requesting the Secretary of the Treasury to make the proposal to increase the Fund's resources, stressed the need for consulting members of the Congress.

The access by members to the Fund is limited in both amount and purpose. Under the present Fund policy, access to the first 25 per cent of the quota that a country has, as a rule, paid in gold is "almost automatic." Requests for drawings within the next 25 per cent are also treated "liberally," but even so, such requests are approved only if the country asking for assistance can show that it "is making reasonable efforts to solve its own problems." For drawings beyond the first 50 per cent of the quota, "substantial justification is required."

The Fund has thus been likened to a fire brigade which, in an emergency, can help a member — provided that the member helps himself. The member knows that the resources obtained from the Fund are essentially of a short-

term character and must be regarded as a temporary addition to reserves, permitting it to adopt and carry out, within a limited period of time, a constructive program to restore stability and balance in its economy. The Fund is, in effect, a "revolving fund," and its policy is that currencies acquired from it must be repaid within a prescribed period, with an outside limit of five years. This has been done so far. Virtually all borrowing transactions prior to 1955 have been fully repaid.

No Substitute for Sound Policies

The Fund has proved to be a responsible custodian of emergency international reserves. At the moment, to be sure, the Fund is not seriously handicapped by a general shortage of resources. Furthermore, as pointed out earlier, the recession has brought increase, not decrease, in the aggregate gold and dollar reserves of foreign countries. The notable recovery of sterling, the fiscal reforms in France, the emergence of the German mark as a hard currency, and the growth of private international lending are additional constructive factors. For these reasons, an increase in the Fund's resources could be envisaged not as a step called for by the state of international trade and payments today, but — in the President's words — "for the tasks of the decade ahead."

Any enlargement of the Fund's resources should, of course, be predicated upon the first principle of public and private finance — that we live within our means. This is what the Fund is constantly having to impress upon its borrowers. "If we examine how the Fund has actually operated," stated the Fund's Managing Director, Per Jacobsson, at the Brussels Exhibition last month, "it is fair to say that the Fund has increasingly been a factor not for weakening, but rather for strengthening, monetary discipline, being able to grant assistance only when countries make reasonable efforts to solve their problems and present programs holding out the hope of enduring stability at realistic rates of exchange."

"People's Capitalism" at Work

Reports issued by leading American corporations on their operations for 1957, presented to shareholders this year, again tell an impressive story of private capitalism at work. Such reports are a fresh reminder of the enormous scope and variety of the goods and services offered by these enterprises for use by the American people and customers overseas. Perhaps even more interesting, because subject to so much misunderstanding and misrepresentation, are the facts as to how the huge sums derived from these operations are divided up among those who have contributed their labor and their capital, paid out for materials and power, shared with government, or set aside for investment in new wealth-producing facilities for further satisfaction of human needs and aspirations.

The showing of these companies invites comparison with the state of affairs under the "Dictatorship of the Proletariat." While in communist theory the shops, mines, and factories belong to the worker, in practice he gets little, due to low purchasing power and concentration by the real owner — the State — on heavy industry. By contrast, under the private capitalism exemplified in these leading U.S. companies, millions do in fact share directly in ownership of the means of production and — more to the point — the great mass of the people are able to buy and enjoy the goods turned out in such rich and varied abundance.

Total Assets, 100 Largest U.S. Nonfinancial Corporations as Reported at End of 1957 (In Millions)

Manufacturing	
Allied Chemical Corp.	$757
Aluminum Co. of Amer.	1,316
American Can Co.	791
American Cyanamid Co.	587
American Tobacco Co.	815
Anaconda Co.	1,030
Armco Steel Corp.	723
Atlantic Refining Co.	751
Bethlehem Steel Corp.	2,260
Chrysler Corporation	1,497
Cities Service Co.	1,279
Continental Can Co.	664
Continental Oil Co.	604
Dow Chemical Co.	875
E.I. du Pont de N. & Co.	2,519
Eastman Kodak Co.	710
Firestone Tire&Rub. Co.	771
Ford Motor Co.	3,114
General Electric Co.	2,361
General Motors Corp.	6,826
Goodyear Tire&Rub. Co.	913
Gulf Oil Corp.	3,241
Inland Steel Co.	663
Inter. Bus. Mach. Corp.	1,087
Inter. Harvester Co.	1,021
Inter. Paper Co.	802
Int. Tel. & Tel. Corp.	800
Jones&Laughlin Stl. Cp.	799
Kaiser Alum.&Chem.Cp.	742
Kennecott Copper Corp.	807
Monsanto Chemical Co.	631
National Steel Corp.	671
Olin Mathieson Chm.Cp.	792
Phillips Petroleum Co.	1,520
Procter & Gamble Co.	688
Radio Corp. of Amer.	721
Republic Steel Corp.	930
Reynolds Metals Co.	733
R. J. Reynolds Tob. Co.	713
Shell Oil Co.	1,385
Sinclair Oil Corp.	1,481
Socony Mobil Oil Co.	3,105
Sperry Rand Corp.	743
Stand. Oil Co. of Calif.	2,246
Stand. Oil Co. (Ind.)	2,535
Stand. Oil Co. (N.J.)	8,712
Sun Oil Co.	653
Texas Company	2,729
Tidewater Oil Co.	797
Union Carbide Corp.	1,456
Union Oil Co. of Calif.	673
U.S. Rubber Co.	593

Manufacturing (cont'd)	
U.S. Steel Corp.	$4,074
Western Electric Co.	1,329
Westinghouse Elec. Cp.	1,401
Youngstown S. & T. Co.	636

Trade	
Great A. & P. Tea Co.	596
Montgomery Ward & Co.	727
Sears, Roebuck & Co.	1,578

Transportation	
Atchison, Topeka & S.F.	1,548
Baltimore & Ohio R.R.	1,293
Chesapeake & Ohio Ry.	1,087
Chicago, Burl. & Quincy	827
Chicago, Mil., St. P.&P.	674
Great Northern Railway	950
Illinois Central R.R.	704
Louisville & Nashville	700
Missouri Pacific R.R.	898
New York Central R.R.	2,626
Norfolk & Western Rwy.	698
Northern Pacific Rwy.	972
Pennsylvania Railroad	2,991
Southern Pacific Co.	2,177
Southern Railway Co.	820
Union Pacific Railroad	1,497

Public Utilities	
Amer. Elec. Pow. Co.*	1,283
Amer. & For. Pow. Co.	957
Amer. Natural Gas Co.	690
Amer. Tel. & Tel. Co.	17,678
Columbia Gas System	852
Com'wealth Edison Co.	1,460
Con. Edison Co. of N.Y.	1,829
Con. Natural Gas Co.	614
Consumers Power Co.	805
Detroit Edison Co.	912
El Paso Natural Gas Co.	1,324
General Pub. Util. Cp.	789
General Telephone Corp.	1,105
Middle South Utilities	669
Niagara Mohawk Pr.Cp.	882
Pacific Gas & Elec. Co.	2,146
Pacific Lighting Corp.	625
Philadelphia Elec. Co.	869
Pub. Ser. Elec. & G. Co.	1,061
South. Calif. Edison Co.	1,064
Southern Company	1,037
Tenn. Gas Trans. Co.	1,097
Texas East. Trans. Cp.	767
Texas Utilities Co.	654
United Gas Corp.	678

Total assets are shown after deducting reserve for depreciation.
*Formerly American Gas and Electric Co.

One of the most familiar, yet always impressive, examples of this ability of the common man "to buy back the product" is the number of workers' automobiles seen stretching across the parking lots of factories throughout this country.

100 Largest Nonfinancial Companies

Typical examples of large aggregations of capital investment applied to the mass production of goods and services are the 100 largest nonfinancial corporations, as measured by their total assets reported at the end of 1957. This group, listed on the preceding page, accounts for a substantial share of the U.S. production and sales, employment and payrolls, purchases of goods and services, outlays on plant and equipment, and taxes to all units of government.

It will be seen that total assets range from $587 million for the "smallest" company in the group all the way up to $17 billion for the Bell Telephone System, with 43 in the "billion dollar club." Together they add up to $148 billion. In the list are 56 companies in the manufacturing industries with assets amounting to $83 billion, 25 utility systems with assets of $42 billion, 16 railroads with $20 billion, and three retail trade enterprises with $3 billion.

Investment $24,000 per Employe

To carry on their far-flung operations, the 100 largest nonfinancial corporations employed last year a total of 6.2 million men and women. There were 34 companies having over 50,000 employes each.

On their reported total assets of $148 billion at the year end, the average investment is about $24,000 per employe. For the companies in the manufacturing industries the average is around $20,000 per employe, for the railroads $32,000 and for the utilities $38,000, but for the big retail trade houses $7,000.

These figures, based on book assets as reported for balance sheet purposes, are in many cases far below present-day values. Plant and equipment is customarily carried at original cost less accrued depreciation, which is generally well below current replacement cost. In the composite balance sheet the net property account totals $96 billion, after deducting depreciation and depletion of $52 billion.

Book valuations may understate also the current values of inventories carried on the LIFO basis, as well as investments and other assets. Moreover, they usually give no weight to the "intangibles" of goodwill, trade marks, organization, relationships, etc., which may be priceless.

Ownership of the 100 largest companies is vested in 10.8 million registered stockholders. Compared with the 6.7 million total ten years ago, the increase has been 60 per cent.

These totals include, of course, duplication to the extent that the same investors hold stock in more than one company in the group. On the other hand, the number of registered holders of individual companies understates the real breadth of ownership represented in the stock held by banks, brokers, trustees, and nominees; also, practically everyone has some beneficial interest in the companies through pension trusts, investment trusts, mutual funds, insurance companies, and institutions for educational, philanthropic, religious, research, and other purposes.

There are 65 companies on the list having over 50,000 registered shareholders each, reflecting their popularity among investors. More shareholders than employes are reported by 74 companies.

Outstanding common stock of these companies totaled 2.2 billion shares at the year end, while shareholders' equity, including preferred stock, was put at $89 billion. In addition, there was long-term debt outstanding of $35 billion.

Disposition of Receipts

Sales, revenues, and receipts from other sources of the 100 largest nonfinancial corporations in 1957 aggregated approximately $124 billion, with 36 each ringing up more than $1 billion. Such huge income figures are often cited as proof of ability to pay higher wages and taxes, and also to reduce prices.

There is, however, another side to the ledger — expenditures — as shown in the accompanying summary.

Disposition of Receipts by the 100 Largest U.S. Nonfinancial Corporations in the Year 1957

	Total (Millions)	% of Receipts
Total receipts from sales, revenues, etc.	$124,308	100.0
Costs:		
Costs of goods and services purchased from others, etc.	59,997	48.3
Wages, salaries, and labor benefits*	35,079	28.2
Provision for depreciation and depletion	6,876	5.5
Interest paid	1,181	1.0
Income taxes	6,973	5.6
Other federal, state, local & foreign taxes†	4,602	3.7
Total costs of operations	114,708	92.3
Net income	9,595	7.7
Preferred and common dividends paid	5,420	4.3
Retained in the business	$ 4,175	3.4

*Partly estimated, on basis of payrolls reported by companies representing 87 per cent of the total employment of the group.

†Tax figures charged as costs are exclusive of various sales and excise taxes collected from customers, such as gasoline and oil $3,488 million, automobiles $1,595 million, tires $205 million, telephone messages $545 million, and railroad transportation $210 million.

Costs of goods and services purchased from others, together with miscellaneous expenses, came to $60.0 billion — 48.3 per cent of the sales dollar.

Payrolls and other labor benefits (pensions, hospitalization, insurance, vacations, etc.) came to $35.1 billion — an average of $5,600 per employe. This was 28.2 per cent of the sales dollar.

Provision for depreciation and depletion of properties amounted to 5.5 per cent of the sales dollar, while interest paid on current and long-term debt took 1.0 per cent.

Taxes on income amounted to $7.0 billion, while other federal, state, local, and foreign taxes came to $4.6 billion. The total of $11.6 billion averaged $32 million per day and took over 9 cents out of every dollar of sales.

In addition to tax figures charged as costs there were various sales and excise taxes collected from customers such as the taxes on gasoline and oil, automobiles and tires, railroad transportation, and telephone calls, amounting to over $6 billion more.

Total expenses and taxes paid or accrued absorbed 92.3 cents of the sales dollar, leaving 7.7 cents as net income.

On the book net assets at the beginning of the year, this represented an average return of 11.5 per cent. The understatement noted earlier of the book valuation of assets relative to present-day replacement costs causes a corresponding overstatement of the percentage rates of return computed thereon. Also, in the case of companies such as public utilities which have a large proportion of capital investment in the form of funded debt, the rate of return on total property investment would be lower than that on equity capital only.

Dividend payments to the preferred and common shareholders amounted to 4.3 cents of the sales dollar, leaving 3.4 cents to be retained in the business for financing growth.

This balance of net income from operations, however, does not signify a gain in actual cash, the combined holding of which totaling $5.6 billion at the year end actually declined by $200 million. This is because, in addition to the outlays charged as expenses, these companies used $11.1 billion for an increase in assets — mainly in net property account over and above the amounts charged off for depreciation. Funds to finance such expansion were provided by a combination of retained income, new stock issues sold, and increases in long-term debt.

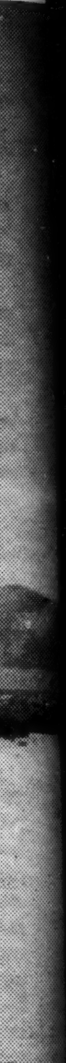
Thus the 100 largest nonfinancial companies, despite taking in $124 billion in revenues in 1957, found in the aggregate that to meet their operating expenses plus financing replacement and expansion it was necessary both to increase indebtedness and to raise more equity capital.

Business Big and Small

The readiness of these leading concerns, under successful management, to make unceasing capital investments to improve products and services, to hold down costs, and to expand facilities to meet growing demands explains their place at the head of the list. All these companies are engaged in keen rivalry for their share of the market. Their ability to remain in the leadership class is not a vested right, but depends on their success in meeting the changing requirements of the business community and of the ultimate consumer.

It is noteworthy that the growth of large enterprises has not resulted in any reduction in the total number of businesses in operation. This total is now around 4.3 million, against 4.2 million five years ago, and 4 million ten years ago. The number of active concerns is constantly being replenished by entries of around 1,000 daily of new concerns which offset those dropping out for various reasons, mainly because of inexperience, poor management, and inadequate capital. Not to be overlooked, there is also a constant moving up of successful concerns from small to intermediate size, and from intermediate to large.

The extent to which these enterprises, widely owned by the people, are doing an efficient job in serving the people can be judged from the record. While the Socialist party continues to repeat its old slogan of "production for use instead of for profit," the leading American corporations under our system of free enterprise capitalism keep expanding the "production" and spreading the "use" ever more widely among the people, including people in other lands to whom we have been able to give needed economic aid. There is, indeed, no such issue as the slogan implies. No one would think of trying to make money out of producing articles for which there is no use. Profits are the guide to management in supplying the things the public wants and is willing to pay for. Without this guide, the alternative is a government bureaucracy to determine what and how much is to be produced; and the public has to take what is offered whether it likes it or not.



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